

PARTS 32 AND 64 STREAMLINING

| | Account Title | Class A Account | Class B Account |
|--|--|--------------------|--------------------|
| | Aircraft expense | 6113 | |
| | Special purpose vehicles expense | 6114 | |
| | Garage work equipment expense | 6115 | |
| | Other work equipment expense | 6116 | |
| | General support expenses | 6120 | 6120 |
| | Land and building expenses | 6121 | |
| | Furniture and artworks expense | 6122 | |
| | Office equipment expense | 6123 | |
| | General purpose computers expense | 6124 | |
| | Central office switching expense | 6210 | 6210 |
| | Analog electronic expense | 6211 | |
| | Digital electronic expense | 6212 | |
| | Electro-mechanical expense | 6215 | |
| | Operators system expense | 6220 | 6220 |
| | Central office transmission expenses | 6230 | 6230 |
| | Radio systems expense | 6231 | |
| | Circuit equipment expense | 6232 | |
| | Information origination/termination expense | 6310 | 6310 |
| | Station apparatus expense | 6311 | |
| | Large private branch exchange expense | 6341 | |
| | Public telephone terminal equipment expense | 6351 | |
| | Other terminal equipment expense | 6362 | |
| | Cable and wire facilities expenses | 6410 | 6410 |
| | Poles expense | 6411 | |
| | Aerial cable expense | 6421 | |
| | Underground cable expense | 6422 | |
| | Buried cable expense | 6423 | |

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| | Account Title | Class A Account | Class B Account |
|---------------------------------------|---|--------------------|--------------------|
| | Submarine cable expense | 6424 | |
| | Deep sea cable expense | 6425 | |
| | Intrabuilding network cable expense | 6426 | |
| | Aerial wire expense | 6431 | |
| | Conduit systems expense | 6441 | |
| | | | |
| | | | |
| | | | |
| Plant nonspecific operations expense: | | | |
| | Other property plant and equipment | | |
| | expenses | 6510 | 6510 |
| | Property held for future Telecommunications | | |
| | use expense | 6511 | |
| | Provisioning expense | 6512 | |
| | Network operations expenses | 6530 | 6530 |
| | Power expense | 6531 | |
| | Network administration expense | 6532 | |
| | Testing expense | 6533 | |
| | Plant operations administration expense | 6534 | |
| | Engineering expense | 6535 | |
| | Access expense | 6540 | 6540 |
| | Depreciation and amortization expenses | 6560 | 6560 |
| | Depreciation expense - telecommunications | | |
| | plant in service | 6561 | |
| | Depreciation expense - property held for | | |
| | future telecommunications use | 6562 | |
| | Amortization expense - tangible | 6563 | |
| | Amortization expense - intangible | 6564 | |
| | Amortization expense - other | 6565 | |

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| | Account Title | Class A Account | Class B Account |
|-------------------------------------|--|--------------------|--------------------|
| Customer operations expense: | | | |
| | Marketing | 6610 | 6610 |
| | Product management | 6611 | |
| | Sales | 6612 | |
| | Product advertising | 6613 | |
| | Services | 6620 | 6620 |
| | Call completion services | 6621 | |
| | Number services | 6622 | |
| | Customer services | 6623 | |
| Corporate operations expense: | | | |
| | Executive and planning | 6710 | 6710 |
| | Executive | 6711 | |
| | Planning | 6712 | |
| | General and administrative | 6720 | 6720 |
| | Accounting and finance | 6721 | |
| | External relations | 6722 | |
| | Human resources | 6723 | |
| | Information management | 6724 | |
| | Legal | 6725 | |
| | Procurement | 6726 | |
| | Research and development | 6727 | |
| | Other general and administrative | 6728 | |
| | Provision for uncollectible notes receivable | 6790 | 6790 |
| Other Operating Income and Expense: | | | |
| | Other operating income and expense | 7100 | 7100 |

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| | Account Title | Class A Account | Class B Account |
|----------------------------------|--|--------------------|--------------------|
| | Income from custom work | 7110 | |
| | Return from nonregulated use of regulated facilities | 7130 | |
| | Gains and losses from foreign exchange | 7140 | |
| | Gains or losses from disposition of land and artwork | 7150 | |
| | Other operating gains and losses | 7160 | |
| | | | |
| Operating Taxes: | | | |
| | Operating taxes | 7200 | 7200 |
| | Operating investment tax credits - net | 7210 | |
| | Operating federal income taxes | 7220 | |
| | Operating state and local income taxes | 7230 | |
| | Operating other taxes | 7240 | |
| | Provision for deferred operating income taxes - net | 7250 | |
| | | | |
| Nonoperating Income and Expense: | | | |
| | Nonoperating income and expense | 7300 | 7300 |
| | Dividend income | 7310 | |
| | Interest income | 7320 | |
| | Income from sinking and other funds | 7330 | |
| | Allowance for funds used during construction | 7340 | |
| | Gains or losses from the disposition of certain property | 7350 | |
| | Other nonoperating income | 7360 | |
| | Special charges | 7370 | |
| | | | |

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| | Account Title | Class A Account | Class B Account |
|--|---|--------------------|--------------------|
| Nonoperating taxes: | | | |
| | Nonoperating taxes | 7400 | 7400 |
| | Nonoperating investment tax credits - net | 7410 | |
| | Nonoperating federal income taxes | 7420 | |
| | Nonoperating state and local income taxes | 7430 | |
| | Nonoperating other taxes | 7440 | |
| | Provision for deferred nonoperating income | | |
| | taxes - net | 7450 | |
| Interest and Related Items: | | | |
| | Interest and related items | 7500 | 7500 |
| | Interest on funded debt | 7510 | |
| | Interest expense - capital leases | 7520 | |
| | Amortization of debt issuance expense | 7530 | |
| | Other interest deductions | 7540 | |
| Extraordinary Items: | | | |
| | Extraordinary items | 7600 | 7600 |
| | Extraordinary income credits | 7610 | |
| | Extraordinary income charges | 7620 | |
| | Current income tax effect of extraordinary | | |
| | items - net | 7630 | |
| | Provision for deferred income tax effect of | | |
| | extraordinary items - net | 7640 | |
| Jurisdictional Differences and Nonregulated Income items: | | | |
| | Income effect of jurisdictional ratemaking | | |
| | differences - net | 7910 | 7910 |
| | Nonregulated net income | 7990 | 7990 |

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Attachment 2

Class A Mandated Sub Accounts that should be eliminated.

- 1220.1 Inventories - Material and Supplies
- 1220.2 Inventories - Property Held for Sale or Lease
- 1406.1 Nonregulated Investments - Permanent Investment
- 1406.2 Nonregulated Investments - Receivable/Payable
- 1406.3 Nonregulated Investments - Current Net Income or Loss
- 2123.1 Office Equipment - Office Support Equipment
- 2123.2 Office Equipment - Company Communications Equipment
- 2215.1 Electro-Mechanical Switching - Step-by-Step
- 2215.2 Electro-Mechanical Switching - Crossbar Switching
- 2215.3 Electro-Mechanical Switching - Other Electro Mechanical Switching
- 2231.1 Radio Systems - Satellite and Earth Station Facilities
- 2231.1 Radio Systems - Other Radio Facilities

Attachment 3

Metallic Non-metallic Mandated Breakdown should no longer be mandated

- | | |
|------|-----------------------------|
| 2421 | Aerial Cable |
| 2422 | Underground Cable |
| 2423 | Buried Cable |
| 2424 | Submarine Cable |
| 2425 | Deep Sea Cable |
| 2426 | Intrabuilding Cable |
| 6421 | Aerial Cable Expense |
| 6422 | Underground Cable Expense |
| 6423 | Buried Cable Expense |
| 6424 | Submarine Cable Expense |
| 6425 | Deep Sea Cable Expense |
| 6426 | Intrabuilding Cable Expense |

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Attachment 4

Rules Change: Modify 32.5999 to Eliminate Expense Matrix Requirement

Subpart E - Instructions for Expense Accounts.

§ 32.5999 General.

(a) Structure of the expense accounts.

(1) The expense section of the system of accounts shall be organized by ~~expense group summary account, account, and subsidiary record category (if required).~~

~~(2) The expense section of this system of accounts shall be comprised of four major expense groups: Plant Specific Operations, Plant Nonspecific Operations, Customer Operations and Corporate Operations. Expenses to be recorded in Plant Specific and Plant Nonspecific Operations Expense Groups generally reflect cost associated with the various kinds of equipment identified in the plant asset accounts. Expenses to be recorded in the Customer Operations and Corporate Operations accounts reflect the costs of, or as associated with, functions performed by people, irrespective of the organization in which any particular function is performed.~~

~~(3) Summary accounts within expense groups shall be used to describe aggregations of two or more accounts having a certain commonality. Summary accounts are assigned numbers so that they may be used by Class A telephone companies to aggregate accounts for reporting purposes; and as specifically directed, so that they may be used as accounts by Class B telephone companies.~~

~~(4) Accounts shall be maintained as prescribed in this section subject to the conditions described in § 32.13 in Subpart B. Subsidiary record categories may be required below the account level by this system of accounts or by Commission order.~~

~~(b) Plant Specific Operations Expense.~~

~~(1) The Plant Specific Operations Expense accounts, 6110 through 6441, are used to record costs related to specific kinds of telecommunications plant.~~

~~(2) The Plant Specific Operations Expense accounts predominantly mirror the telecommunications plant in service detail accounts and are numbered consistently with them; the first digit of the expense account being six (6) and the remaining digits being the same as the last three numbers of the related plant account. In classifying Plant Specific Operations expenses, the text of the corresponding plant account should be consulted to ensure appropriateness.~~

~~(3) The Plant Specific Operations Expense accounts shall include the costs of inspecting, testing (except as specified in Account 6533, Testing Expense and reporting on the condition of telecommunications plant to determine the need for repairs, replacements, rearranges and changes; performing routine work to prevent trouble except as specified in Account 6533), replacing items of plant other than retirement units; rearranging and changing the location of plant not retired; repairing material for reuse; restoring the condition of plant damaged by storms, floods, fire, or other casualties~~

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~~(other than the cost of replacing retirement units); inspecting after repairs have been made; and receiving training to perform these kinds of work. Also included are the costs of direct supervision (immediate or first level) and office support of this work.~~

~~(4) In addition to the activities specified in paragraph (b)(3) of this section, the appropriate Plant Specific Operations Expense accounts shall include the cost of personnel whose principal job is the operation of plant equipment, such as general purpose computer operators, aircraft pilots, chauffeurs and shuttle bus drivers. However, when the operation of equipment is performed as part of other identifiable functions (such as the use of office equipment, capital tools or motor vehicles) the operators' cost shall be charged to accounts appropriate for those functions. (For costs of operator services personnel, see Accounts 6621, Call Completion Services, and 6622, Number Services, and for costs of test board personnel see Account 6533.)~~

~~(c) Plant Nonspecific Operations Expense. The Plant Nonspecific Operations Expense accounts shall include expenses related to property held for future telecommunications use, provisioning expenses, network operations expenses, and depreciation and amortization expenses. Accounts in this group (except for Accounts 6540, Access Expense, and Accounts 6560 through 6565) shall include the costs of performing activities described in narratives for individual accounts. These costs shall also include the costs of supervision and office support of these activities.~~

~~(d) Customer Operations Expense. The Customer Operations Expense accounts shall include the cost of performing customer related marketing and services activities described in narratives for individual accounts. These costs shall also include the costs of supervision, office support and training for these activities.~~

~~(e) Corporate Operations Expense. The Corporate Operations Expense accounts shall include the costs of performing executive and planning activities and general and administrative activities described in narratives for individual accounts. These costs shall also include the costs of supervision, office support and training for these activities.~~

~~(f) Expense Matrix. The expense accounts shall be maintained by the following subsidiary record categories, as appropriate to each account. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.~~

~~_____ (1) Salaries and wages. This subsidiary record category shall include compensation to employees, such as; wages, salaries, commissions, bonuses, incentive awards and termination payments.~~

~~_____ (2) Benefits. This subsidiary record category shall include payroll related benefits on behalf of employees such as the following:~~

- ~~_____ Pensions~~
- ~~_____ Savings plan contributions (company portion)~~
- ~~_____ Workers compensation required by law~~
- ~~_____ Life, hospital, medical, dental, and vision plan insurance~~
- ~~_____ Social Security and other payroll taxes~~

~~_____ (3) Rents.~~

~~_____ (i) This subsidiary record category shall include amounts paid for the use of personal operating property. Amounts paid for real property shall be included in Account 6421, Land and Buildings Expense. This category includes payments for operating leases but does not include payments for capital leases.~~

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~~(ii) This subsidiary record category is applicable only to the Plant Specific Operations Expense accounts. Incidental rents, e.g., short-term rental car expense, shall be categorized as Other Expenses (see paragraph (f)(4) of this section) under the account which reflects the function for which the incidental rent was incurred.~~

~~(4) Other expenses. This subsidiary record category shall include costs which cannot be classified to the other subsidiary record categories. Included are material and supplies, including provisioning (note also Account 6512, Provisioning Expense); contracted services; accident and damage payments; insurance premiums; traveling expenses and other miscellaneous costs.~~

~~(5) Clearances. This subsidiary record category shall include amounts transferred to Construction accounts (see § 32.2000 (c)(2)(iii)), or other Plant Specific Operations Expense accounts, and/or Account 3100, Accumulated Depreciation (cost of removal, see § 32.2000(g)(1)(iii)), as appropriate, from Accounts 6112, Motor Vehicle Expense, 6113, Aircraft Expense, 6114, Special Purpose Vehicles Expense, 6116, Other Work Equipment Expense, 6534, Plant Operations Administration Expense, and 6535, Engineering Expense. There shall also be transfers to Construction or other Plant Specific Operations Expense accounts, as appropriate, from Account 6512, Provisioning Expense. With respect to these expenses, companies may establish such clearing accounts as they deem necessary to accomplish substantially the same results, provided that within 30 days of the opening of such accounts, companies shall notify the Commission of the nature and purpose thereof. Additional clearing accounts affecting other expense areas may be established with prior approval of the Commission. Should companies elect, the initial incurred subsidiary record category identification may be carried through to the final accounts without this Commission's approval.~~

~~(g) Reimbursements. Reimbursements of actual costs incurred in connection with joint operations or projects, repairing plant due to damages by others, and obligations to make changes in telecommunications plant (such as highway relocations), shall be credited to the accounts originally charged.~~

Attachment 5

Rules Change: Modify 32.2000 to eliminate implementation details.

§ 32.2000 Instructions for telecommunications plant accounts.

(a) Purpose of telecommunications plant accounts.

(1) The telecommunications plant accounts (2001 to 2007 inclusive) are designed to show the investment in the company's tangible and intangible telecommunications plant which ordinarily has a service life of more than one year, including such plant whether used by the company or others in providing telecommunications service.

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4360, Other Deferred Credits; when final determination has been made as to the amount to be returned any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7110, Income from Custom Work.)

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(3) When telecommunications plant ordinarily having a service life of more than one year is installed for temporary use in providing telecommunications service, it shall be accounted for in the same manner as plant having a service life of more than one year. ~~This includes temporary installations of plant (such as poles, wire and cable) installed to maintain service during the progress of highway reconstruction or during interruptions due to storms or other casualties, equipment used for training of operators, equipment used to provide intercepting positions in central offices to handle traffic for a short period following extensive system changes and similar installations of property used to provide telecommunications service.~~

(4) The cost of individual items of equipment, ~~classifiable to Accounts 2112, Motor Vehicles; 2113, Aircraft; 2114, Special Purpose Vehicles; 2115, Garage Work Equipment; 2116, Other Work Equipment; 2122, Furniture; 2123, Office Equipment; and 2124, General Purpose Computers,~~ costing \$2,000 or less or having a life less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable materials and supplies account until the items are used.

(b) ~~Telecommunications plant acquired.~~ The accounting for property, plant and equipment is to be recorded at original cost.

~~(1) Property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for at original costs, except that property, plant and equipment acquired from a nonaffiliated entity shall be accounted for at acquisition cost if the purchase price is less than \$100,000 for Class A companies or \$25,000 for Class B companies.~~

~~(2) The accounting property plant and equipment is to be recorded at original cost shall be as follows:~~

~~(i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in connection with the acquisition) shall be charged to Account 1439, Deferred Charges.~~

~~(ii) The original cost, estimated if not known, of telecommunications plant, governmental franchises and other similar rights acquired shall be charged to the applicable telecommunications plant accounts, Telecommunications Plant Under Construction, and the actual original cost cannot be determined and estimates are used, the company shall be prepared to furnish the Commission with the particulars of such estimates.~~

(1) ~~(iii)~~ Depreciation and amortization of plant acquired shall be credited to Account 3100, Accumulated Depreciation, or Account 3200 Accumulated Depreciation-Held for Future Telecommunications Use, 3400, Accumulated Amortization-Tangible, 3410, Accumulated Amortization-Capitalized Leases, 3420, Accumulated Amortization-Leasehold Improvements, 3500, Accumulated Amortization-Intangibles, and 3600, Accumulated Amortization-Other, and debited to Account 1439.

~~(iv) Any amount remaining in Account 1439, applicable to the plant acquired, shall upon completion of the entries provided in paragraphs (b)(2)(i), (ii) and (iii) above, be debited or credited, as applicable to Account 2007, Goodwill or to Account 2005, Telecommunications Plant Adjustment, as appropriate.~~

(3) A memorandum record shall be kept showing the amount of contributions in aid of construction applicable to the property acquired as shown by the accounts of the previous owner.

~~(4) Companies shall submit to the Commission for consideration and approval copies of journal entries recording acquisition of telecommunications plant covered by this instruction when the consideration paid is \$1,000,000 or greater (Class A companies) and \$250,000 or greater~~

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~~(Class B companies). The text of such entries shall give a complete description of the property acquired and the basis upon which the amounts of the entries have been determined~~

(c) Cost of construction.

(1) Telecommunications plant represents an economic resource which will be used to provide future services, the cost of which will be allocated in a rational and systematic manner to the future periods in which it provides benefits. In accounting for construction costs, the utility shall charge to the telecommunications plant accounts, where applicable, all direct and indirect costs: **Labor, Engineering, Material and Supplies, Transportation, Contract Work, Protection, Privileges, Taxes, Allowance for Funds Used During Construction, and Other Related Costs.**

~~(2) Direct and indirect costs shall include, but not be limited to:~~

~~(i) "Labor" includes the wages and expenses of employees directly engaged in or in direct charge of construction work. It includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.~~

~~(ii) "Engineering" includes the portion of the wages and expenses of engineers, draftsmen, inspectors, and their direct supervision applicable to construction work. It includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.~~

~~(iii) "Material and supplies" includes the purchase price of material used at the point of free delivery plus the costs of inspection, loading and transportation, and an equitable portion of provisioning expense. In determining the cost of material used, proper allowance shall be made for unused material, for material recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of material. This item does not include construction material that is stolen or rendered unusable due to vandalism. Such material should be charged to the applicable plant specific operations expense accounts.~~

~~(iv) "Transportation" includes the cost of transporting employees, material and supplies, tools and other work equipment to and from the physical construction location. It includes amounts paid therefore to other companies or individuals and the cost of using the company's own motor vehicles or other transportation equipment.~~

~~(v) "Contract work" includes amounts paid for work performed under contract or other agreement by other companies, firms or individuals; engineering and supervision applicable to such work; cost incident to the award of contracts; and the inspection of such work. The cost of construction work performed by affiliated companies and other details relating thereto shall be available from the work in progress and supporting records.~~

~~(vi) "Protection" includes the cost of protecting the company's property from fire or other casualties and the cost of preventing damages to others or the property of others.~~

~~(vii) "Privileges, Permits and Rights of way" includes such costs incurred in obtaining these privileges, permits, or rights of way in connection with construction work, such as for use of private property, streets or highways. The cost of such privileges and permits shall be included in the cost of the work for which the privileges or permits are obtained, except for costs includable in Account 2111, Land, and Account 2690, Intangible~~

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~~(viii) "Taxes" includes taxes properly includable in construction costs before the facilities are completed for service, which taxes are assessed separately from taxes on operating property or under conditions that permit separate identification of the amount chargeable to construction.~~

~~(ix) "Special machine service" includes the cost of labor expended, materials and supplies consumed and other expenses incurred in the maintenance, operation and use of special and other labor saving machines (other than transportation equipment) such as trenching equipment, cable plows and pole setting trucks. Also included are expenditures for rental, maintenance and operation of such machines owned by others. When a construction job requires the purchase of special machines, the cost thereof, less the appraised or salvage value at the time of release from the job, shall be included in the cost of construction.~~

~~(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications Plant Under Construction, and credited to Account 7340. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowing of the enterprise. The amount of interest costs capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.~~

~~(xi) "Insurance" includes premiums paid specifically for protection against loss and damage in connection with the construction of telecommunications plant due to fire or other casualty, injury to or death of employees or others, damages to property of others, defalcations of employees and agents, and the nonperformance of contractual obligations of others.~~

~~(xii) "Construction services" include the cost of telephone, electricity, power, construction quarters, office space and equipment directly related to the construction project.~~

~~(xiii) "Indirect construction costs" shall include indirect costs such as general engineering, supervision and support. Such costs, in addition to direct supervision, shall include indirect plant operations and engineering supervision up to, but not including, supervision by executive officers whose pay and expenses are chargeable to Account 6711, Executive. The records supporting the entries for indirect construction cost shall be kept so as to show the nature of the expenditures, the individual jobs and accounts charged, and the bases of the distribution. The amounts charged to each plant account for indirect costs shall be readily determinable. The instructions contained herein shall not be interpreted as permitting the addition to plant of amounts to cover indirect costs based on arbitrary allocations.~~

~~(xiv) The cost of construction shall not include any amounts classifiable as Corporate Operations Expense.~~

(d) Telecommunications plant retired

(1) Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items) in paragraph (d)(2)(ii) of this section. Normally, these retirements credits with respect to such plant as entire buildings, entire central offices, all plant abandoned and any large sections of plant withdrawn from service, shall be entered in the accounts for the month in which use of the property ceased. For any other plant withdrawn from service, the retirement credits shall be

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~~entered no later than the next succeeding month. Literal compliance with the provision for timing of entries with respect to property amounting to less than \$50,000 retired under any one project is not required if an unreasonable amount of recordkeeping and estimating of quantities, original costs and salvage is necessary. The retirement entry shall refer to the continuing property record, or records supplemental thereto, from which the cost was obtained (note also paragraph (d)(3) of this section). Every company shall establish procedures which will ensure compliance with these requirements.~~

~~(2) To avoid undue refinement, depreciable telecommunications plant shall be accounted for as follows:~~

~~(i) Retirement units: This group includes major items of property, a representative list of which shall be prescribed by this Commission. In lieu of the retirement units prescribed with respect to a particular account, a company may, after obtaining specific approval by this Commission, establish and maintain its own list of retirement units for a portion or all of the plant in any such account. For items included on the retirement units list, the original cost of Depreciation, whether or not replaced. The original cost of retirement units installed in place of property retired shall be charged to the applicable telecommunications plant account.~~

~~(ii) Minor items: This group includes any part or element of plant which is not designated as a retirement unit. The original cost of a minor item of property when included in the specific or average cost for a retirement unit or units requires no separate credit to the telecommunications plant account when such a minor item is retired. The cost of replacement shall be charged to the account applicable for the cost of repairs of the property. However, if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, of greater durability, of greater capacity or more economical in operation), the excess cost of such a replacement, over the estimated cost at the then current prices of replacement without betterment of the minor items being retired, shall be charged to the applicable telecommunications plant account.~~

~~(3) The cost of property to be retired shall be the amount at which property is included in the telecommunications plant accounts. However, when it is impracticable to determine the cost of each item due to the relatively large number or small cost of such items, the average cost of all the items covered by an appropriate subdivision of the account shall be used in determining the cost to be assigned to such items when retired. The method used in determining average cost must give due regard to the quantity, vintage, size and kind of items, the area in which they were installed and their classification in other respects. Average cost may be applied in retirement of such items as poles, wire, cable, cable terminals, conduit and booths. Any company may use average cost of property installed in a year or band of years as approved by the Commission. It should be understood, however, that the use of average costs shall not relieve the company of the requirement for maintaining its continuing property records to show, where practicable, dates of installation and removal for purposes of mortality studies. (See § 32.2000(f) of this subpart, Standard Practices for Establishing and Maintaining Continuing Property Records.)~~

~~(2) (4) The accounting for the retirement of property, plant and equipment shall be as provided above except:~~

~~(i) Minor Items: This group includes any part or element of plant which is not designated as a retirement unit. However, if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, of greater durability, of greater capacity, or more economical in operation), the excess cost of such a replacement, over the estimated cost at the then current prices of replacement without betterment of the minor items being retired, shall be charged to the applicable telecommunications plant account.~~

~~(ii) (4) Amounts included in Account 2005, Telecommunications Plant Adjustment; Leasehold Improvements; Account 2690, Intangibles; and any amounts associated with amortizable leaseholds, easements Account 2680, Amortizable Tangible Assets; Account 2681, Capital Leases; Account 2682, and similar rights in land included in Account 2111, Land shall be debited, as appropriate, to Accounts 3410, 3420, 3500, or 3600, and credited to the applicable accounts.~~

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(ii) Amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7150, Gains and Losses from Disposition of Land and Artwork, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating Plant.

(3) ~~(5)~~ When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7350, Gains and Losses from Disposition of Certain Property. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

~~(e) Basic property records~~

~~(1) The basic property records are that portion of the local property accounting system which preserves the following detailed information:~~

~~(i) The identity, vintage, location and original cost of units of property;~~

~~(ii) Original and ongoing transactional data (plant account activity) in terms of such units ; and~~

~~(iii) Any other specific financial and cost accounting information not properly warranting separate disclosure as an account or subaccount but which is needed to support regulatory, cost, tax, management and other specific accounting information needs and requirements.~~

~~(e) (2)~~ The basic property records must be

(i) subject to internal accounting controls,

(ii) auditable,

(iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and

(iv) maintained throughout the life of the property.

~~(3) The basic property records shall consist of~~

~~(i) continuing property records and~~

~~(ii) records supplemental thereto which together reveal clearly, by accounting area, the detailed and systematically summarized information necessary to meet fully the requirements of paragraphs (e)(1) and (e)(2) of this section.~~

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~~(4) Companies shall establish and maintain basic property records for each class of property recorded in the several plant accounts which comprise the balance sheet Account 2001, Telecommunications Plant In Service, Account 2002, Property Held for Future Telecommunications Use, and Account 2006, Nonoperating Plant.~~

~~(5) The company shall notify the Commission of a plan for the basic property record as follows:~~

~~(i) Not later than June 30 of the year following that in which it becomes subject to this system of accounts, the company shall file with the Commission two (2) copies of a complete plan of the method to be used in the compilation of a basic property record with respect to each class of property. The plan shall include a list of proposed accounting areas accompanied by description of the boundaries of each area as defined in accordance with the requirements of § 32.2000(f)(1) (i) and (ii) of this subpart. The plan shall also include a list of property record units proposed for use under each regulated plant account. These property record units shall be selected such that the requirements of § 32.2000 (f)(2) (i), (ii) and (iii) of this subpart can be satisfied.~~

~~(ii) The company shall submit to the Commission one copy of any major proposed changes in its basic property record plan at least 30 days before the effective date of the proposed changes.~~

~~(6) The company shall prepare and maintain the basic property record as follows:~~

~~(i) Not later than June 30 of the year following that in which the company becomes subject to this system of accounts, begin the preparation of a basic property record.~~

~~(ii) Complete within two years of the prescribed beginning date, basic property records for all property as of the end of the preceding calendar year.~~

~~(iii) Promptly process in the basic property records all property changes affecting periods subsequent to initial establishment of the basic property record.~~

~~(7) The basic property record components (see paragraph (c) above) shall be arranged in conformity with the regulated plant accounts prescribed in this system of accounts as follows:~~

~~(i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in § 32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives:~~

~~(A) Provide for the verification of property record units by physical examination~~

~~(B) Provide for accurate accounting for retirements.~~

~~(C) Provide data for use in connection with depreciation studies.~~

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~~(ii) The records supplemental to the continuing property records shall disclose such service designations, usage measurement criteria, apportionment factors, or other data as may be prescribed by the Commission in this Part or other Parts of its Rules and Regulations. Such data are subject to the same general controls and standards for auditability and support as are all other elements of the basic property records.~~

(f) Standards ~~practices~~ for establishing and maintaining continuing property records

~~(1) Accounting area.~~ Property records shall be maintained by original cost where appropriate. Otherwise averaging or estimates as described below shall be used.

~~(i) The continuing property record, as related to each primary plant account, shall be established and maintained by subaccounts for each accounting area. An accounting area is the smallest territory of the company for which accounting records of investment are maintained for all plant accounts within the area. Areas already established for administrative, accounting, valuation, or other purposes may be adopted for this purpose when appropriate. In no case shall the boundaries of accounting areas cross either State lines or boundaries prescribed by the Commission.~~

~~(ii) In determining the limit of each area consideration shall be given to the quantities of property, construction conditions, operating districts, county and township lines, taxing district boundaries, city limits, and other political or geographical limits, in order that the area adopted may have maximum adaptability, within the confines of practicability, for both the company's purpose and those of Federal, State, and municipal authorities.~~

~~(2) Property record units.~~

~~(i) In each of the established accounting areas, the "property record units" which are to be maintained in the continuing property record shall be set forth separately, classified by size and type with the amount of original cost (or other appropriate book cost) associated with such units. When a list of property record units has been accepted by the Commission, they shall become the units referred to in this statement of standard practices. Such units shall apply to only the regulated portion of this system of accounts.~~

~~(ii) When it is found necessary to revise this list because of the addition of units used in providing new types of service, or new units resulting from improvements in technology, or because of the grouping or elimination of units which no longer merit separate recognition as property record units, one copy of such changes shall be submitted to the Commission. Upon appropriate showing by the company, the Commission may specifically exempt the company from these filing requirements.~~

~~(iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also § 32.2000(f) (3) of this subpart) of the property record units. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined.~~

~~(3) Methods of determining original cost of property record units. The original cost of the property record units shall be determined by analyses of the construction costs incurred as shown by completion reports and other data, accumulated in the respective construction work orders or authorization. Costs shall be allocated to and associated with the property record units to facilitate accounting for retirements. The original cost of property record units shall be determined by unit identification or averaging as described in paragraphs (f)(3) (i) and (ii) of this section.~~

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~~(i) Unit identification. Cost shall be identified and maintained by specific location for property record units contained within certain regulated plant accounts or account groupings such as Land, Buildings, Central Office Switching, Central Office Network Management, Motor Vehicles, Garage Work Equipment, and Furniture. In addition, units involved in any unusual or special type of construction shall be recorded by their specific location costs (note also paragraph § 32.2000(f)(3)(ii)(B) of this subpart.~~

~~(2) (ii) Averaging.~~

~~(A) Average costs may be developed for plant consisting of a large number of similar units such as terminal equipment, poles, wire, cable, cable terminals, conduit, furniture, and work equipment. Units of similar size and type within each specified accounting area and regulated plant account may be grouped. Each such average cost shall be set forth in the continuing property record of the units with which it is associated.~~

~~(B) The averaging of costs permitted under the provisions of the foregoing paragraph is restricted to plant installed in a particular vintage or band of years incurred within an accounting area. This paragraph does not permit the inclusion of the cost of units involved in any unusual or special type of construction. The units involved in such unusual or special type of construction shall be recorded at cost by location.~~

~~(3) (4) Estimates. In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed.~~

~~(5) Identification of property record units. There shall be shown in the continuing property record or in record supplements thereof, a complete description of the property records units in such detail as to identify such units. The description shall include the identification of the work order under which constructed, the year of installation (unless not determinable per § 32.2000(f)(4) of this subpart, specific location of the property within each accounting area in such manner that it can be readily spot checked for proof of physical existence, the accounting company's number or designation, and any other description used in connection with the determination of the original cost. Descriptions of units of similar size and type shall follow prescribed groupings.~~

~~(6) Reinstalled units. When units to which average costs are not applied, i.e., specific and fixed location units, are removed or retired and subsequently reinstalled, the date when the unit was first charged to the appropriate plant account shall, when required for adequate service life studies and reasonably accurate retirement accounting, be shown in addition to the date of reinstallation.~~

~~(7) Age and service life of property. The continuing property record shall disclose the age of existing property and the supporting records shall disclose the service life of property retired. Exceptions from this requirement for any property record unit shall be submitted to the Commission for approval.~~

~~(8) Reference to sources of information. There shall be shown by appropriate reference the source of all entries. All drawings, computations, and other detailed records which support quantities and costs of estimated costs shall be retained as a part of or in support of the continuing property record.~~

~~(9) Jointly owned property.~~

~~(i) With respect to jointly owned property, there shall be shown in the continuing property record or records supplemental thereto:~~

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~~(A) The identity of all joint owners.~~

~~(B) The percentage owned by the accounting company.~~

~~(ii) When regulated plant is constructed under arrangements for joint ownership, the amount received by the construction company from the other joint owner or owners shall be credited as a reduction of the gross cost of the plant in place.~~

~~(iii) When a sale of a part interest in regulated plant is made, the fractional interest sold shall be treated as a retirement and the amount received shall be treated as salvage. The continuing property record or records supplemental thereto shall be so maintained as to identify separately retirements of this nature from physical retirements of jointly owned plant.~~

~~(iv) If jointly owned regulated property is substantial in relation to the total of the same kind of regulated property owned wholly by the company, such jointly owned regulated property shall be appropriately segregated in the continuing property record.~~

(g) Depreciation accounting

(1) Computation of depreciation rates.

~~(i) Unless otherwise provided by the Commission, either through prior approval or upon prescription by the Commission, depreciation percentage and/or amortization rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property.~~

~~(ii) In the event any composite percentage rate becomes no longer applicable, revised composite percentage rates shall be computed in accordance with subparagraph (i) of this section.~~

~~(iii) The company shall keep such records of property and property retirements as will allow the determination of the service life of property which has been retired, or facilitate the determination of service life indications by mortality, turnover, or other appropriate methods. Such records will also allow the determination of the percentage of salvage value and cost of removal for property retired from each class of depreciable plant.~~

(2) Depreciation charges.

~~(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. Exceptions will be in accordance with (iii) below.~~

~~(ii) Companies, upon receiving prior approval from this Commission, or upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this paragraph apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant.~~

~~(ii) (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one~~

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~~twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month.~~

~~(iii) (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other **amortization** methods whereby selected plant balances or portions thereof are ratably distributed over **appropriate** periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.~~

~~(3) Acquired depreciable plant. When acquired depreciable plant carried in Account 1439, Deferred Charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1439.~~

~~(4) Plant Retired for Nonrecurring Factors not Recognized in Depreciation Rates.~~

~~(i) A retirement will be considered as nonrecurring (extraordinary) only if the following criteria are met:~~

~~(A) The impending retirement was not adequately considered in setting past depreciation rates.~~

~~(B) The charging of the retirement against the reserve will unduly deplete that reserve.~~

~~(C) The retirement is unusual such that similar retirements are not likely to recur in the future.~~

~~5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated Depreciation, and Charge Account 1438, Deferred Maintenance and Retirements, with the unprovided for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6561, Depreciation Expense Telecommunications Plant in Service, or Account 6562, Depreciation Expense Property Held for Future Telecommunications Use, over such period as this Commission may direct or approve.~~

~~(h) Amortization accounting~~

~~(1) Unless otherwise provided by this Commission, either through approval or upon prescription by this Commission, amortization shall be computed on the straight line method, i.e., equal annual amounts shall be applied. The cost of each type of asset shall be amortized on the basis of the estimated life of that asset and shall not be written off in the accounting period in which the asset is acquired. A reasonable estimate of the useful life may be based on the upper or lower limits even though a fixed existence is not determinable. However, the period of amortization shall not exceed forty years.~~

~~(2) In the event any estimated useful life becomes no longer applicable, a revised estimated useful life shall be determined in accordance with paragraph (h)(1) of section.~~

~~(3) Amortization charges shall be made monthly to the appropriate amortization expense accounts and corresponding credits shall be made to the appropriate amortization reserve accounts. Monthly charges shall be computed by the application of one twelfth to the annual amortization amount.~~

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~~(4) The company shall keep such records as will allow the determination of the useful life of the asset.~~

~~(i) Accounting for software The original cost of initial operating system software for computers shall be classified to the same account as the associated hardware whether acquired separately or in conjunction with the associated hardware.~~

Attachment 6

Rules Change: Modify Section 32.2(f) to allow for subsidiary records to be kept according to Generally Accepted Accounting Principles

(f) The financial data contained in the accounts, together with the detailed information contained in the underlying financial and ~~other~~ subsidiary records required by **Generally Accepted Accounting Principles, Tax purposes and internal business requirements** ~~this Commission~~, will provide the information necessary to support separations, costs of service and management reporting requirements. The basic account structure has been designed to remain stable as reporting requirements change.

Rules Change: Modify Section 32.12 to keep subsidiary records according to Generally Accepted Accounting Principles.

§32.12 Records.

(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.

(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be ~~filed~~ **maintained** in such manner as **required under Generally Accepted Accounting Principles** to be readily accessible for examination by representatives of this Commission **and retained according to Part 42 of the Commission's rules.**

~~(c) The Commission shall require a company to maintain financial and other subsidiary records in such manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.~~

Rules Change: Modify Section 32.13(a)(3) to eliminate preapproval.

~~(3) A company may establish temporary or experimental accounts provided that within 30 days of the opening of such accounts the company notifies the Commission of the nature and purpose thereof~~

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Rules Change: Modify 32.16 to eliminate preapproval.

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. ~~Commission approval of a change in accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Concurrent with informing this Commission of its intent to adopt an accounting standards change, the company shall also file a revenue requirement study for the current year and a projection for three years into the future analyzing the effects of the accounting standards change. Furthermore, any change subsequently adopted shall be disclosed in annual reports to this Commission.~~ Changes subsequently adopted by carriers shall be disclosed in annual reports to this Commission. **Companies are required to notify the Commission of new accounting standards that will not be adopted on a USOA basis.**

(b) The changes in accounting standards which ~~the carriers adopt this Commission approves~~ will not necessarily be binding on the ratemaking practices of the various state commission.

Rules Change: Modify 32.25 to eliminate preapproval.

Extraordinary items, prior period adjustments and contingent liabilities shall be ~~submitted to this Commission for review before being~~ recorded in the company's books of account **in accordance with the requirements of Generally Accepted Accounting Principles.** ~~The materiality of corrections of errors in prior periods shall be measured in relation to the summary account level used for reporting purposes for Class A carriers, or in relation to total operating revenues or total operating expenses for Class B carriers. For Class A carriers, no correction in excess of one percent of the aggregate summary account dollars or one million dollars, whichever is higher, may be recorded in current operating accounts without prior approval. For Class B carriers, no correction which exceed one percent of total operating revenues or one percent of total operating expenses, depending on the nature of the item, may be recorded in current operating accounts without prior approval.~~

Rules Change: Modify 32.26 to bring Materiality in line with GAAP.

Companies shall follow this system of accounts in recording all financial and statistical data. **When errors occur or better estimates become available, corrections should be based on the Generally Accepted Accounting Principles criteria of materiality.** ~~under GAAP, unless a waiver has been granted under the provisions of § 32.18 of this subpart to do otherwise.~~

Rules Change; Modify 32.1220(h) to bring Inventories in line with GAAP.

Periodic ~~Inventories of material and supplies shall be taken during each calendar year and the adjustments to this account shall be charged or credited to Account 6512, Provisioning expense 6510 other Property, Plant and Equipment Expense.~~

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Rules Change; Modify 32.2002(b) to obtain preapproval for extending Property Held for Future Use.

Should a carrier desire to retain the property in this account for a period longer than two years, ~~it shall request approval of this~~ **the Commission staff must be notified.** The **notification request** should include the property item in question, ~~demonstrate that the waiver is in the public interest,~~ and indicate, as precisely as possible, the additional time required for the property to be held in this account.

Rules Change; Modify 32.2311(f) to bring Inventories in line with GAAP.

~~An annual inventory. Periodic asset verifications as prescribed by Generally Accepted Accounting Principles shall be taken of all station apparatus in stock that are included in this account. The number of such station apparatus items as determined by this inventory, together with the number of all other station apparatus items included in this account, shall be compared with the corresponding number of station apparatus items as shown by the respective control records. The original cost of any unreconciled differences thereby disclosed shall be adjusted through Account 3100, Accumulated Depreciation. Appropriate verifications shall be made at suitable intervals and necessary adjustments between this account and Account 3100 shall be made for all station apparatus included in this section.~~

Rules Change: Modify 32.4361, 32.1437, 32.4340 to eliminate the tax gross up calculation which is not necessary for financial reporting.

Account 4361 - Regulatory Liability should be changed to read the following:

(a) This account shall include amounts of probable future ~~revenue net reductions in revenues attributable to future decreases in taxes payable.~~ **(future revenue reductions in excess of future revenue increases) attributable to:**

1- future net decreases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method(future decreases in excess of future increases).

2 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As **net reductions in revenue** occur, amounts recorded in this account shall be reduced with a debit entry and a credit entry to account 4340.

Account 1437 - Regulatory Asset should be changed to read as follows:

(a) This account shall include amounts of probable future **net increases in revenues** ~~for the recovery of future increases in taxes payable.~~ **(future revenue increases in excess of future revenue decreases) attributable to:**

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1- future net increases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future increases in excess of future decreases).

2 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As **net increases in revenue reversals** occur, amounts recorded in this account shall be reduced with a credit entry and a debit entry to account 4340.

Accounts 4340 and 4341 should be combined as follows:

Replace 32.4340(a)-(e) with these words:

Account 4340 shall include the deferred tax effects of all unreversed temporary differences (i.e., SFAS No. 109 requires that unreversed temporary differences should be stated at the rate the tax will be paid) as defined under SFAS No. 109.

Delete account 4341, section 32.4341(a)-(c).

Attachment 7

Rules Change. Modify 32.23 to allow for all tariffed activities to be accounted for as regulated.

§ 32.23 Nonregulated activities.

(a) This section describes the accounting treatment of activities classified for accounting purposes as "nonregulated." Preemptively deregulated activities and activities (other than incidental **or de minimus** activities) never subject to regulation will be classified for accounting purposes as "nonregulated." Activities that qualify for incidental treatment under the policies of this Commission will be classified for accounting purposes as regulated activities. **Tariffed activities and** ~~a~~Activities that have been deregulated by a state will be classified for accounting purposes as regulated activities. Activities that have been deregulated at the interstate level, but not preemptively deregulated, will be classified for accounting purpose as regulated activities until such time as this Commission decides otherwise. The treatment of nonregulated activities shall differ depending on the extent of the common or joint use of assets and resources in the provision of both regulated and nonregulated products and services.

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Attachment 8

Rules Change: Modify 32.27(b), (c), (d) to eliminate the use of two methods to value the same affiliate transaction.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in part (d) below, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, ~~the assets shall be recorded at the higher of fair market value and net book cost. For all other assets or~~ purchased by or transferred to a carrier from its affiliate, the assets shall be recorded at the ~~lower of fair market value and net book cost. seller's net book cost. For purposes of this section carriers are required to make a good faith determination of fair market value.~~

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in part (d) below, shall be recorded at the prevailing price. For all other services provided by a carrier to its affiliate, ~~the services shall be recorded at the higher of fair market value and fully distributed cost. For all other services or~~ received by a carrier from its affiliate, the service shall be recorded at the ~~lower of fair market value and seller's fully distributed cost, except that services received by a carrier from its affiliate or provided by a carrier to its affiliate when such affiliate (that) exists solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. For purposes of this section carriers are required to make a good faith determination of fair market value.~~

(d) In order to qualify for prevailing price valuation in sections (b) and (c) of this rule, sales of a particular asset or service to third parties must encompass greater than 50 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 50 percent threshold on a asset-by-asset and service-by-service basis, rather than on a product line or service line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied. *In the case of nonregulated activities, a BOC may also record transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.*

Attachment 9

Rules Change: Eliminate 64.901(b)(4)

~~The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to its regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.~~

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Attachment 10

Rules Change: Move 64.901(c) to 54

~~(c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.~~

Attachment 11

Rules Change: Modify 64.903(6)(b) to eliminate the requirement for LEC to quantify CAM changes and to give a 15-day notice.

Each carrier shall ensure that the information contained in its cost allocation manual is accurate. Carriers must update their cost allocation manuals at least annually, except that changes to the cost apportionment tables and to the description of time reporting procedures must be filed at least 15 days before the carrier plans to implement the changes. Annual cost allocation manual updates shall be filed on or before the last working day of each calendar year. ~~Proposed changes in the description of time reporting procedures, the statement concerning affiliate transactions, and the cost apportionment table must be accompanied by a statement quantifying the impact of each change on regulated operations. Changes in the description of time reporting procedures and the statement of affiliate transactions must be quantified in \$100,000 increments at the account level. Changes in cost apportionment tables must be quantified in \$100,000 increments at the cost pool level.~~ The Chief Common Carrier Bureau may suspend any such changes for a period not to exceed 180 days, and may thereafter allow the changes to become effective or prescribe a different procedure.

RAO Change: Modify RAO 19 to no longer require a product matrix, which is over and above the rules, to be submitted with Section II of the CAM.

~~Section II, Nonregulated Activities, must contain a matrix which shows each nonregulated product and the accounts associated with that nonregulated product.~~

Attachment 12

Rules Change: Eliminate 64.904. This will remove the requirement that an external auditor be hired to annually audit the ARMIS 43-03 report.

~~(a) Each local exchange carrier required to file a cost allocation manual, by virtue of having annual operating revenues that equal or exceed the indexed revenue threshold for a given year or by order of the Commission, shall have an audit performed by an independent auditor on an annual basis, with the initial audit performed in the calendar year after the carrier is first required to file a cost allocation manual. The audit shall provide a positive opinion on whether the applicable data shown in the carrier's annual report required by §43.21(e)(2) of this chapter present fairly, in all material respects, the information of the carrier required to be set forth therein in accordance with the carrier's cost allocation manual, the Commission's Joint Cost orders issued in conjunction with CC Docket No. 86-111 and the Commission's rules and regulations included §32.23 and §32.27 of this chapter, §64.901, and §64.903 in force as of the date of the auditor's~~